

Chicago Fed Letter

Tapping the potential of the unbanked— Private sector interest increases

by Doug Tillett, vice president, and Liz Handlin, manager, External Affairs

Banks increasingly recognize that the unbanked, individuals who do not have bank accounts, represent a significant untapped market for financial products and services. As a result, they are beginning to tailor their product offerings to draw the unbanked into the financial mainstream. Public sector financial literacy programs provide important support for these efforts.

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There are more than 10 million individuals in the United States who do not have a relationship with a mainstream financial institution. In the past, these “unbanked” individuals have been difficult for the financial community to reach due, in part, to the diverse nature of the group and the variety of reasons they have for not using traditional financial services. Recently, however, both public and private institutions have introduced a number of promising new initiatives aimed at bringing the unbanked into the financial mainstream.

In the private sector, banks have begun to see that attracting the unbanked by providing basic account services and marketing those services in nontraditional ways is good business. Individuals who begin with basic account services most often maintain a relationship with the same institution when they move on to more sophisticated financial products. Banks now see the unbanked as potential customers and are exploring new and creative ways of marketing to this segment. For example, banks are recognizing the need to make their existing products more accessible to recent immigrants, who make up a significant proportion of the unbanked population. Some banks are choosing to accept different forms of personal

identification, while others are reaching entire communities through faith-based organizations. Others are creating incentives for recent immigrants to use banks to transfer money from the U.S. to family members in their country of origin instead of using currency exchanges and wire transfer companies.

In the public sector, the Federal Reserve System, the U.S. Department of the Treasury, some public school systems, and many community-based groups are active in researching issues and developing initiatives to increase access to mainstream financial services. A recent conference at the Federal Reserve Bank of Chicago brought private and public sector participants together to discuss this important effort.

Fed conference

The November 14, 2002, Conference on the Unbanked in Chicago attracted representatives from the U.S. Treasury, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC), the General Accounting Office (GAO), the Federal Reserve Board of Governors, the Federal Reserve Banks of Chicago, Atlanta, St. Louis, Cleveland, Minneapolis, Dallas, Boston, and Kansas City, Shorebank Advisory Services, the Woodstock

Institute, Global Chicago, the University of North Carolina, and the Chicago Public School System (CPS). The conference featured a keynote speech by the U.S. Treasurer, the Honorable Rosario Marin, who suggested that greater financial literacy is a baseline requirement for individuals to make use of financial services. The conference also included presentations by the GAO and the Inter American Dialogue and a panel discussion of private sector solutions to the problems of appealing to the unbanked.

by students of the school. The bank is open to students and their parents and has been very successful at teaching both young people and adults about the importance of traditional banking services. Open three days per week, the bank logs 350 to 380 face-to-face transactions per month. Cardinal Bank has deposit account balances totaling between \$305,000 and \$315,000, and that number has continued to grow. It offers direct consumer and installment loans and currently has a total loan portfolio of almost \$200,000.

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The panel, "How Banks and Employers are Successfully Reaching Out to the Unbanked," described many of the creative programs that the private sector is using to bring unbanked individuals into the financial mainstream. Several of these programs spring from successful partnerships between the private and public sectors. The Chicago City Treasurer, the City Colleges of Chicago, and the FDIC have created a partnership to educate the unbanked about how to use the banking system responsibly. "Our Money Matters" is a series of courses underwritten by the City Treasurer's office and offered through the City Colleges of Chicago, which utilizes the FDIC's MoneySmart curriculum to teach people how to get and use bank accounts. This course began in September 2001 and, to date, has educated more than 1,100 people about the use of bank accounts, how to clean up a credit report, and about the wise use of credit in general.

Mitchell Bank in Milwaukee, Wisconsin, and its chief executive officer, James Maloney, also have taken an innovative approach to helping unbanked individuals by establishing a branch of the bank at Milwaukee's South Division High School. Cardinal Bank, located within a predominantly Hispanic neighborhood, is a two-year-old facility that is operated and managed solely

The CPS and its chief financial officer, Ken Gotsch, have taken a different approach to helping employees who do not have bank accounts. In a pilot program, CPS has arranged to pay employees via debit cards if they do not have a direct deposit account at a financial institution. This will result in efficiencies and cost savings for CPS and an important first step for many CPS employees in developing a relationship with a mainstream financial services provider.

Another creative approach to helping the unbanked is to provide recent immigrants with an efficient and cost-effective means of transferring money to family members in their country of origin. Manuel Orozco of the Inter American Dialogue discussed the increasing volume of these transfers, called remittances, worldwide and the corresponding decline in costs. Orozco's articles on this topic are available at www.thedialogue.org. Many of the unbanked in the United States have emigrated from other countries, most from Latin America, and their remittances to family members often represent an important source of revenue for the home country.

Orozco's research indicates that immigrants from Latin America send significant portions of their income back to their home countries. The

most commonly used method for remitting funds is wire transfer services. Fees for sending money to a recipient in another country often run as high as 13% of the total. Last year alone, remittances from the U.S. to Latin America amounted to more than \$23 billion. Some U.S. banks have taken notice of this large volume and have identified recent immigrants as a viable customer segment. These banks are attempting to attract these potential customers by offering relatively inexpensive methods of transferring funds. One creative example, used by several banks, is the "dual ATM card." Both the money sender and recipient have ATM cards for a designated account that can be accessed in both the U.S. and Mexico, for example. Typically, the sender puts money in the account in the U.S. and the recipient uses the card to withdraw money in Mexico.

Promoting financial literacy

The above discussion illustrates how the public sector is providing important support for some of the private sector's new initiatives. Conference participants went on to address what further role, if any, the public sector might play in addressing the problems of the unbanked. As a leader in the Federal Reserve System's unbanked initiatives, the Chicago Fed has conducted research into the behavioral issues associated with why people do not use mainstream financial services and hosted conferences to address issues relating to unbanked immigrants, cross-border money transfers, and best practices for community outreach. But what other activities would best use the organizational strength of the public sector to increase awareness of the value of mainstream financial services? The Chicago Fed is focusing its efforts in two important areas: promoting financial literacy and surveying the products offered by financial institutions in the Seventh Federal Reserve District.

There are a number of community groups in Chicago that focus on moving individuals into the financial mainstream. Grassroots efforts typically have been

directed to helping people with poor credit ratings, those who lack the proper identification required to obtain a bank account, those who distrust banking institutions, and those who do not have adequate funds to maintain even a small balance in a bank account. These community groups have long cited the need for a reliable compendium of information about financial products and services, especially basic bank accounts.

In a first-of-its-kind project to assist community groups working with unbanked individuals and low- to moderate-income consumers, the Chicago Fed undertook an effort to collect and make available information on the basic accounts offered by all of the financial institutions in the Seventh District (comprising all of Iowa and most of Illinois, Indiana, Michigan, and Wisconsin). The Bank developed an Internet-based list of basic account offerings for more than 1,200 banks and credit unions in the five-state region. In addition to account information, the database notes whether background checks are required for potential customers, what types of identification are required to open an account, and which languages are spoken at the bank. The information is available at www.chicagofed.org/unbanked/banking_financial_services_search/index.cfm.

This new database of account information will assist community and public sector organizations in their efforts to help their clients find the institutions and financial products that best suit their needs. The database also can be used by general consumer audiences as a way to search for a bank account by location, institution, and/or specific features. Financial institutions participate by entering data about their accounts, branches, and products, and keeping that account information up to date. The Chicago Fed is encouraging all financial institutions in the District to participate in this important consumer and community resource.

In the area of financial literacy, the Chicago Fed is focusing its efforts not on the creation of new curricula or

content, but instead on finding ways for organizations to make information about financial products and services available to consumers and the general public. An example of this is Money Smart Week, an annual Chicago event that began in April 2002. During Money Smart Week, Chicago Public Schools, Chicago Public Libraries, local banks, government agencies, community organizations, and the media worked together to raise awareness of the range of products and services available to consumers to help them better understand and manage their finances (www.chicagofed.org/consumerinformation/projectmoneysmart/moneysmartweek.cfm). Program topics ranged from first-time home buying to getting a bank account to first-time investing to avoiding identity theft. In some cases, banks or libraries hosted special financial literacy events while, in other cases, community groups or government agencies were able to achieve greater publicity for their programs through a combined public relations effort. Several local newspapers ran daily calendars of events. The Chicago Public Library also listed the events on its website (www.chipublib.org) and made paper calendars available in its branches. Eleven branches hosted financial literacy events.

After participating in Money Smart Week, Illinois State Treasurer Judy Baar Topinka is producing a financial resource guide for Illinois women. Topinka has created an Advisory Board on Women's Issues led by Ellen Solomon, who is coordinating the effort to publish this guide that will help women in Illinois take charge of their finances.

The U.S. Treasury established the Office of Financial Education in 2002, headed by Deputy Assistant Secretary Judith J. Chapa, which aims to provide Americans with the practical knowledge to make informed financial choices. The office will encourage and support early financial education through the integration of financial concepts into other core subjects, such as math and reading. The Office

of Financial Education published a white paper, entitled "Integrating Financial Education into School Curricula," on October 3, 2002, which is available at www.treasury.gov.

U.S. Treasurer Rosario Marin, an immigrant herself, spoke firsthand about the importance of educating immigrants about the value of having a bank account. According to Marin, one-third of unbanked households are African American and 29% are Hispanic. She went on to say that three out of four Hispanics have not accumulated enough for retirement, and three out of ten unbanked individuals have not begun to save for retirement. Marin also said that millions of Americans do not set up bank accounts because they do not have knowledge of how financial institutions work. She added that personal bankruptcies more than doubled between 1990 and 2000, indicating the critical need for financial literacy education.

While the Chicago Fed and the Treasury have championed financial literacy, other Reserve Banks and government agencies have undertaken projects of their own. Robert Feil, vice president at the Federal Reserve Bank of Dallas, discussed the scope of the partnership between the U.S. Treasury and the Dallas Fed in the electronic transfer account (ETA) program and their success in setting up accounts for unbanked

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individuals. The ETA program, as currently administered by the Treasury, has signed up more than 42,000 accounts in 587 financial institutions with 18,700 branch locations. Sonja Bensen of the GAO presented highlights of the GAO's report to Congress on the ETA program ("Report to the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives: Electronic transfers, use by federal payments recipients has increased but obstacles to greater participation remain," available at www.GAO.gov).

Although the numbers cited above are significant, the report concludes that the use of creative approaches could lead to more unbanked federal beneficiaries opening accounts with financial institutions. Feil and Bensen both noted that education about the benefits of using bank products and services had been an important aspect of the ETA program's success.

Community affairs initiatives

Marques Benton, Federal Reserve Bank of Boston, Virginia Hopley, Federal Reserve Bank of Cleveland, Jessica

LeVeon, Federal Reserve Bank of Atlanta-Nashville Branch, and Harry Pestine, Federal Reserve Bank of Chicago, participated in a panel discussion, moderated by the Chicago Fed's Alicia Williams, on consumer and community affairs initiatives in these Fed districts.

Notable was a partnership between the Federal Reserve Bank of Boston and the Mayor's office on an earned income tax credit (EITC) initiative. Approximately 40,000 individuals in Boston were receiving \$58 million in EITC but about 13,000 people were not getting access to the credit, which was worth about \$9 million. The Boston Fed worked with public and private organizations to help people find out about the EITC and partnered with seven organizations to work directly with individuals who were eligible for EITC credits. In addition, Boston Fed employees volunteered to help individuals with their taxes. The results have been impressive: 650 additional people received an EITC (based on IRS numbers). In the future, the Boston Fed plans to try to build on the success of its EITC outreach program to help individuals get

bank accounts. This effort is similar to a program in Chicago led by the Center for Economic Progress in partnership with Shorebank.

Conclusion

While there are still many people in the United States who do not have access to mainstream financial institutions, much progress is being made in both the public and private sectors in reaching these individuals. Financial literacy remains at the core of every discussion about the unbanked. Both public and private sector organizations that wish to bring the unbanked into the banking community are incorporating financial education into their marketing plans. The private sector is developing a number of new and innovative products to appeal to the unbanked. In addition, strong partnerships forged between public and private sector organizations, all utilizing their strengths, are helping to spread the financial literacy message to millions of Americans.